

REAL ESTATE REINCARNATED
Changing Work and Lifestyles Will
Require Changing Structures,
and That Represents a Big Opportunity

Market Perspectives
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The pace of economic recovery will be fastest in the job centers where businesses are constantly transforming what they make and how they make it. New and adaptive real estate development, built to suit the unique cultures of these businesses and the people who work in them, will lead and accelerate economic growth. Capital is available for these developments if proposed projects include equity and can realistically forecast profits and loan repayments.

The recent transaction economy was so named because deals made with financiers powered up all types of production, but particularly real estate. Investment bankers on Wall Street and in the financial capitals of the world were the fulcrum of business growth. The world is now in a transformation economy. Business growth and survival will depend on the ability to produce new and improved products and services demanded in global markets. The new “big things” not only show big profits, they also alter the culture of both consumers and labor in a feedback loop that induces the need for still more transformations of goods, services and how they are produced.

TALK (AND MONEY) IS CHEAP

Fortunately for U.S. business innovators, including real estate developers, available capital is relatively cheap because the current low interest environment is likely to last at least two more years. U.S. monetary regulators are holding down interest rates in an effort to resurrect the confidence of and in banks. Also, the Federal Reserve Bank is covering for the inability of the White House and Congress to match the size of the fiscal stimulus to the size of the current gap between demand and productive capacity.

Ben Bernanke’s courageous, and I believe wise, decision to buy \$40 billion in mortgage-backed securities every month until the economy shows more strength is also based on the realization that the health of the U.S. economy depends on increasing exports. If we continue to borrow from our trading partners to sustain our imports, the day will come, in the not too distant future, when the world will no longer accept the dollar as its reserve currency. If that happens, our

situation as a creditor is likely to be similar to Spain, if not Greece. Bernanke understands that if U.S. interest rates rise now, so will the value of the dollar, torpedoing chances for export growth while international markets are already stressed by the ongoing drama in the euro zone.

EURO OPTIONS

In a brilliantly comprehensive description of the ongoing tragedy of the European Union, published in the September issue of *The New York Review of Books*, George Soros lays out the alternatives facing the Euro. One option would be for Germany to overcome its fears of inflation and help Europe’s creditor nations through their necessary restructuring, rather than seek to punish them for what Germans see as the profligate ways of south Europe. A second viable resolution of the tension would be a divorce, with Germany departing the Euro. This would result in the Deutsche mark rising over the value of the Euro, making the creditor nations more competitive. Finally, probably the least desirable option would be for the creditor nations to default and go back to their own currencies. Until the capital market uncertainties created by the almost daily turmoil in the euro zone are resolved, Europe will continue to be a drag on our own recovery while simultaneously adding to the flow of investments in U.S. real estate. As Bernanke has tried to explain to the Europeans, keeping the dollar from soaring while the Europeans work out their stress is in the long-run interests of both the United States and Europe.

The previously mentioned imperative of innovating products and services or suffering the consequences has resulted from an outpouring of disruptive innovations. The contrast between the Eastman Kodak Co., which sat on its digital disruptive innovations while it milked profits from film until it wound up in Chapter 11, and the success of the Eastman Chemical Co., which accelerated its product and process innovations after it was spun off from Kodak in 1994, provides a road map illustrative of the two paths open to firms in the contemporary economy.

THE WRIGHT VIEW

Frank Lloyd Wright’s perspective that “form follows function” informs us that effectively changing the way we work and live requires a change in the structures and places where we work and live. No one type of new or adaptively re-done existing structure is best suited to the technological equipment and culture of all the firms successfully competing

in the transformational economy. Nor are all of today’s new households adapting the same lifestyles. But the real estate opportunities created by the disruptive innovations that have changed our lives and altered the road to business success include:

- The remodeling of existing industrial space, or the creation of loft-type new structures, to provide incubators for small and medium size start-up firms, whose teams work together around tables rather than in offices separated by walls, and who share communications stations, meeting rooms and perhaps cafeterias in the same or adjoining structures.
- Campuses catering to the collaborative work ethic in remodeled office buildings or new buildings in neighborhoods with proximate rental housing and after-work shopping, dining and recreational activities.
- Mixed-use properties comprising rental residential and shopping centers that follow the design and service lead established by Steve Jobs with his greatly appealing Apple stores.
- Owner-occupied residences that go beyond sustainability to include the other engineering, material and technological changes in home building that have made many existing houses obsolete.
- Processing and logistics support facilities designed to take advantage of emerging robotic technology.

The real challenge and opportunity of real estate development today is to provide the private infrastructure that will house the firms and people creating the innovations that spur the economic growth of our own and emerging economies around the world.



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